

1 Q. Please state your name, position, and address.

2 A. My name is Brian Hedman. I am Manager, Regulation at PacifiCorp. My  
3 address is 825 NE Multnomah, Portland, Oregon.

4 Q. Please describe your education and business experience.

5 A. I have a bachelor's degree in business administration from the University of  
6 Washington and a masters degree in economics from Portland State University. I  
7 have been employed by PacifiCorp since 1980 and have held several positions. I  
8 have held my current position for the last 5 years.

9 Q. Have you previously testified?

10 A. Yes. I have represented the Company before this Commission on many  
11 regulatory issues over the years and have testified or submitted testimony before  
12 the Utah Public Service Commission, the Washington Utilities and Transportation  
13 Commission, the Oregon Public Utilities Commission and the Federal Energy  
14 Regulatory Commission.

15 **Q. What is the purpose of your testimony?**

16 A. The purpose of my testimony is to describe the benefits that PacifiCorp's  
17 customers in Idaho will receive from the Bonneville Power Administration  
18 through its residential and small farm exchange credit.

19 Q. What is the Bonneville Power Administration (BPA) Residential and Irrigation  
20 Exchange Credit?

21 A. The BPA credit is a mechanism to provide benefits to qualifying customers of  
22 investor owned utilities (like Utah Power) from the Federal Columbia River  
23 Hydroelectric System in satisfaction of BPA's obligations under the Northwest

1 Power Act of 1980. The credit is available only to residential and small farm  
2 customers and is provided to the Company's customers in Idaho through Electric  
3 Service Schedule No. 34.

4 Q. Please give a brief history of the BPA credit in Idaho.

5 A. Prior to 1997 the amount of credit received from BPA was based on the actual  
6 energy used by the customer, the average system cost of Utah Power and BPA's  
7 seasonally adjusted Priority Firm Exchange rate. In 1996 this methodology  
8 changed. A settlement with BPA in 1996 resulted in a fixed monetary benefit  
9 being provided to the Company to pass-on to qualifying customers. In advice  
10 filing 98-002, the Company proposed an allocation of 43 percent of the 1996  
11 settlement amount to residential customers and 57 percent to irrigation customers.  
12 These proportions were based on a calculation of what the respective classes  
13 would have expected to receive had that settlement not been reached. In Order  
14 No. 27709 the Commission accepted the Company's proposal. The exchange  
15 agreement with BPA expired in 2001, and a new agreement (the "2001  
16 settlement") was entered into to provide a continuation of exchange benefits.

17 Q. Please describe the 2001 settlement.

18 A. In its 2001 rate case, BPA proposed an alternative to the traditional exchange.  
19 The alternative was to provide investor owned utilities the option to purchase  
20 actual power or rights to power through a subscription process. The amount that  
21 the IOU's could subscribe to was based on their qualifying residential and small  
22 farm load in consultation with the regulatory commissions of Idaho, Washington,  
23 Montana and Oregon. IOU's that chose subscription did so as a settlement of

1        their exchange rights for this period. The subscription was further split between  
2        actual power and a monetary portion that was calculated as the difference between  
3        BPA's price and BPA's forecasted market price. Finally, BPA expected to need  
4        to purchase additional resources in order to serve that portion of the subscription  
5        that was delivered as actual power. Faced with the potential of very high costs for  
6        these additional resources, PacifiCorp agreed to forgo its right to actual power for  
7        an overall financial settlement of its exchange benefits. The resulting financial  
8        settlement provides \$34 million in benefits to qualifying Idaho customers for the  
9        first year in benefits and \$35.2 million in the second year.

10    Q.    How does this level compare with historical levels?

11    A.    It is substantially higher. From 1990-1996 BPA provided to PacifiCorp, for its  
12        Idaho customers, between \$16 and \$22 million in exchange benefits annually.  
13        The actual amount varied with energy use. As a result of a 1996 settlement with  
14        BPA for the period 1997-2001, BPA provided a fixed amount of \$47 million for  
15        that 5-year period. Annual payments declined from \$14 million in 1997 to \$8.5  
16        million in 2001, including an additional \$5.5 million to cover the period between  
17        June 30, 2001 when the previous contract ended and October 1, 2001 when the  
18        new contract period started.

19    Q.    How are these benefits distributed among the qualifying customers?

20    A.    As explained above, in recent years the benefits have been allocated 43 percent to  
21        residential customers and 57 percent to irrigation customers. In this case, the  
22        Company proposes to continue to allocate the settlement amounts between the  
23        residential and irrigation customers based on that same approach.

1 Q. Why is the Company requesting that the BPA credit be implemented immediately,  
2 even if the other aspects of the filing are suspended?

3 A. BPA increased its credit effective October 1, 2001. The Company has a  
4 contractual obligation to pass the credit through to its customers in a timely  
5 manner. Consequently, the Company is proposing that Schedule 34, the BPA  
6 credit, be approved immediately.

7 Q. What happens to the increased credit for the period from October 1 until the new  
8 credit level is implemented in rates?

9 A. The Company proposes to add the anticipated four month's worth of credit for  
10 residential customers to the first year's credit rate. In other words, the rate for the  
11 first year will be set to distribute 16 months worth of a normal year's amount for  
12 residential customers. At the end of the first year, the rate will be reset to match a  
13 normal 12 month's worth of credit.

14 Q. Why is only the residential credit adjusted for the four-month lag?

15 A. Irrigation usage is largely completed by October 1. Irrigation payments fluctuate  
16 significantly year to year due to differences in irrigation usage during the  
17 irrigation season. The Company believes that it is most important to make an  
18 explicit adjustment to the residential customers in order to reflect the winter  
19 heating months and to assure that the credit is ultimately distributed according to  
20 the 43 percent residential/57 percent irrigation proportion mentioned earlier.

21 Q. Does this conclude your testimony?

22 A. Yes.